

TEACHERS' RETIRMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Equity - RFP for Indexed
Equity Managers

ITEM NUMBER: 4

ATTACHMENT(S): 3

ACTION: X

DATE OF MEETING: September 1, 1999

INFORMATION: _____

Ms. Okada/
PRESENTER(S): Ms. Hester Amey

BACKGROUND

Currently the California State Teachers' Retirement System (CalSTRS) has three investment management contracts for passive equity management. These are with 1) Barclays Global Investors for domestic equities – S&P 500 and Russell Special Small; 2) Barclays Global Investors for international equities – MSCI Europe and MSCI Pacific Basin; and 3) State Street Global Advisors – CalSTRS Custom Emerging Markets Free. All but State Street Global Advisors' contract will be expiring within the next twelve months. The contracts with Barclays Global Investors may need to be extended to accommodate the timeline for the selection process.

One of the objectives approved by the Investment Committee in August 1999 is to issue and release a Request for Proposal (RFP) for indexed domestic, international and emerging market equities. Staff has also included the emerging markets mandate in this process for consistency. The structure of this RFP will incorporate the processes followed in recent RFPs (active domestic and international equities). These include open ended contracts (evergreen), establishment of a "pool" of managers and delegation of selections to staff.

Attachment 1 provides detailed information for the RFP that includes:

- ⇒ Time line for the RFP
- ⇒ Introduction
- ⇒ Purpose of the RFP
- ⇒ Services to be Provided
- ⇒ Minimum Qualifications
- ⇒ Fee Structure
- ⇒ Proposal Evaluation Criteria

Staff is proposing that the contract participation goal requirement for Disabled Veterans Business Enterprise be required after the final selection process is completed. Upon submission of proposals to STRS, all proposers shall execute a certification, included as Attachment 2, confirming their intent to submit the necessary documentation to STRS in the event they are selected. Each manager shall be required to submit documentation substantiating compliance with the goal prior to the final execution of their contract.

RECOMMENDATION

In concert with the previous RFPs (paralleling the process for the domestic and international equity manager searches), staff recommends that the Investment Committee approve the following:

1. Extensions of current contracts, as needed, to accommodate the timeline for the RFP process;
2. Release of the Request for Proposal as described in Attachment 2;
3. Use of a "Manager Pool" of qualified active managers to replace terminated managers or to supplement the roster of contracted managers;
4. Use of open ended contracts (Evergreen contracts), and ;
5. Delegation of the "Final Selection" to staff and PCA with periodic updates to the Investment Committee.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
DOMESTIC & NON DOLLAR PASSIVE EQUITY MANAGER(S)

TIME SCHEDULE:

Date of Issue:	<u>October/November 1999</u>
Deadline for Submission of Written Questions:	<u>December 1999</u>
Final Filing Date:	<u>January 2000 @ 4:30 p.m.</u>
Pre-evaluation Screening:	<u>January/February 2000</u>
Proposal Evaluation:	<u>February/March 2000</u>
Finalist Interviews:	<u>April 2000</u>
Submission of Contract Parti- cipation Goal Documentation:	<u>To be Announced</u>
Reference Checks:	<u>To be Announced</u>
On-Site (Optional):	<u>To be Announced</u>
Post Notice of Intent to Award:	<u>Immediately After Selection</u>
Award of Contract:	<u>5 business days after posting notice of intent to award</u>

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL

DOMESTIC & NON DOLLAR PASSIVE EQUITY MANAGER(S)

I. INTRODUCTION

The California State Teachers' Retirement System (CalSTRS) administers an investment portfolio with approximately \$100 billion in total assets. As of June 30, 1999, the assets were invested as follows: \$45.9 billion in domestic equities; \$23.7 billion in international equities, \$24.9 billion in domestic fixed income securities; \$2.2 billion in real estate equity; \$2.6 billion in alternative investments and \$0.7 billion in cash reserves. The Investment Management Plan adopted by the Teachers' Retirement Board (Board) provides an investment structure designed to provide diversification within each component of the portfolio. The domestic and non-dollar equity structure contains passive and active components. The passive component includes investments in the following index types: 1) S&P 500, 2) U.S. Extended Market, 3) International and 4) Emerging Markets Free. CalSTRS is in the process of recruiting firms that have expertise in passive management of domestic and/or non-dollar equity portfolios in the index styles mentioned above.

CalSTRS intends to award contracts to a maximum of six (6) Investment Management Firms within the categories identified in Section III (2). Only "live" strategies are acceptable, i.e., simulated portfolios cannot be used. CalSTRS reserves the right to determine the number of contracts which will be awarded in any investment category, as well as the amount of each allocation. In the event that none of the proposals are satisfactory, then no selection will be made in that category. Prospective contractors may submit proposals for one or all of the index styles listed above. If more than one style is proposed, each style must be submitted in a separate proposal under separate cover. Upon award of a contract(s), CalSTRS shall develop investment objectives for each manager.

II. PURPOSE

Pursuant to Education Code 22353 and Article XVI, Section 17 of the California Constitution, CalSTRS is seeking qualified firm(s) to provide passive investment management services for domestic and non dollar equity investments. The firms selected will be fiduciaries of CalSTRS and have discretionary authority with respect to CalSTRS' assets.

CalSTRS will also establish a “pool” of qualified managers from this process. This pool would be used to replace managers that might be terminated in the future or to add a manager(s) as necessary. Contracts will be executed prior to funding.

III. SERVICES TO BE PROVIDED

1. Contractor will manage, acquire and dispose of the assets of the Portfolio in accordance with CalSTRS’ Investment Resolution. Except as otherwise provided in the manager’s contract, the manager will have full discretion over the Portfolio.
2. Contractor will manage a portfolio using one of the following investment categories. All mandates will be managed in accordance with CalSTRS’ Investment Resolution.
 - a) **S&P 500 INDEX:** This portfolio is to track the performance of the S&P 500 index.
 - b) **EXTENDED MARKET INDEX:** This portfolio is to track the performance of a major index such as the Russell 3000 or Wilshire 5000 minus the S&P 500 securities. CalSTRS may choose to optimize the portfolio. The benchmark currently used is the Russell Special Small Cap Index.
 - c) **INTERNATIONAL INDEX:** This portfolio is to track the performance of a major index of international equities such as the Morgan Stanley Capital International Europe Australia Far East (MSCI EAFE), the Goldman Sachs Financial Times-Actuaries, or the Salomon Russell International indices. Currently the CalSTRS international index portfolio is benchmarked to the MSCI EAFE index and is managed in two portfolios: MSCI – Europe and MSCI – Pacific Basin. CalSTRS will work with the manager to determine the optimal management style.
 - d) **EMERGING MARKETS INDEX:** This portfolio is to track the performance and characteristics of an emerging markets index or sub-index such as the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF), International Finance Corporation Investable (IFCI) or the Baring Securities – Emerging Markets Index. Currently the CalSTRS emerging markets index is constructed using a subset of the countries in the MSCI EMF index.
3. Contractor will adhere to the principles enunciated in the Board's Corporate Governance Policy.

4. Contractor will adhere to the Board's Statement of Investment Guidelines, Objectives and Performance Criteria, which will be developed by CalSTRS specifically for each manager chosen and will be incorporated by reference into the contract(s).
5. International and Emerging Markets only. Contractor will secure and vote all proxies, tender offers, mergers, recapitalizations, reorganizations, and any other corporate actions on securities in the portfolio on behalf of CalSTRS. The corporate actions are to be voted in accordance with the Corporate Governance Policy, which may be amended from time to time, and the proxy voting guidelines. Contractor will keep and maintain a record of how all corporate actions are voted and will provide CalSTRS with a detailed written report, to be furnished on a quarterly basis to CalSTRS. This report will identify the company, the number of shares CalSTRS held in the company, the issue and the vote taken.
6. Contractor will provide advice to CalSTRS staff and Board on market conditions, including positive and/or negative trends, and various security-related issues, such as corporate actions.
7. Contractor will provide reports to the Board, CalSTRS staff, and consultants as required by CalSTRS.
8. Contractor will attend Investment Committee, Board and/or staff meetings in California as requested by CalSTRS.

IV. MINIMUM QUALIFICATIONS AND REQUIREMENTS

Minimum Qualifications: The proposer must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy each of the minimum qualifications will result in the immediate rejection of the proposal.

1. If required under the Investment Advisors Act of 1940, the firm must be registered as an investment advisor, bank, insurance company, or a trust company.
2. As of June 30, 1999, the firm must have been in business at least one year.
3. As of June 30, 1999, the firm must have a minimum of \$500 million in assets under management of which \$250 million must be in the proposed investment style category.
4. The portfolio manager(s) assigned to the CalSTRS account must each have a minimum of five (5) years portfolio management experience in the investment style category proposed.
5. As of June 30, 1999, the firm must have at least one tax-exempt account under management.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
DOMESTIC & NON DOLLAR PASSIVE EQUITY MANAGER(S)

FEE SCHEDULE

Name of Proposer

Proposers must submit their annual asset based fee schedule for passive equity management for the proposed investment style in the format prescribed below. The proposed flat fee shall include all costs for providing investment services to CalSTRS as described in this RFP. The fee earned by the manager will be paid from the portfolio (i.e., deducted from the portfolio). The allocation to each manager shall be determined by CALSTRS.

While there is no maximum fee established, the Proposer is reminded that Fees represent 25% of the evaluation process. The proposed fee will be evaluated using a sample portfolio of \$500 million.

Once the Contractor is selected, the fee may be further refined depending on factors which may affect the proposed fee. In no case will the refined fee be higher than the fee contained in this proposal.

SECTION I - ANNUAL FLAT FEE BASED ON MARKET VALUE OF PORTFOLIO

<u>Market Value of Portfolio</u>	<u>Proposer's Annual Flat Fee In Basis Points</u>
First \$ 250 Million	_____
Next \$ 250 Million	_____
Next \$ 250 Million	_____
Next \$ 250 Million	_____
Next \$ 250 Million	_____
Over \$1,250 Billion	_____

In the event the Proposer is awarded more than one contract will the fee structure change?

Yes _____ No _____

If yes, by what percentage? _____%

**DOMESTIC & NON DOLLAR PASSIVE EQUITY MANAGERS
WRITTEN PROPOSAL EVALUATION SHEET**

Name of Proposer		MAXIMUM PROPOSER'S	
		POINT SCORE	POINT SCORE
A.	PROPOSAL QUESTIONNAIRE		
	Section I		
	Organizational Background		
	Professional Staff		
	Assets and Accounts Under Management		
	Trading		
	Client Servicing		
	Subtotal	30	—
	Section II		
	Investment Philosophy		
	Decision-Making Process		
	Portfolio Management Process		
	Research		
	Subtotal	65	—
	Total Sections I & II*	95	—
	Section III		
	Performance	40	—
	Total Item A	135	—
B.	FEES	90	
C.	FINALISTS INTERVIEW**	135	
	GRAND TOTAL	360	

* A proposer must receive a combined score of at least 67 points on Sections I and II to be given further consideration.

** A proposer must receive a minimum score of 95 points on the Finalists Interview to be given further consideration.

CERTIFICATION TO COMPLY WITH
DISABLED VETERAN BUSINESS ENTERPRISE
CONTRACT PARTICIPATION REQUIREMENT

I/We have agree to comply with the Contract Participation Goal requirements. It is understood and agreed that, should our firm be selected as a successful Proposer for this process, the required documentation shall be completed and submitted to STRS to substantiate compliance with the requirements. Documentation shall be submitted prior to the posting of the Notice of Intent to Award, on a date specified by STRS, and shall be subject to STRS' review and approval. We further understand that if this documentation is insufficient and cannot be corrected prior to the date specified by STRS, an agreement cannot be executed..

Proposer's Authorized Signature

Title

Company Name of Proposer

Date

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

Subject: Request for Proposal for Domestic & Non Dollar Passive Equity Manager(s)

Resolution No. _____

WHEREAS, the Board is responsible for managing the Teachers' Retirement Fund (Fund), a Pension Fund; and

WHEREAS, the Board desires to contract with qualified firm(s) with expertise in providing passive investment management services for domestic and non dollar equity investments; and

WHEREAS, the Committee has reviewed the written material and oral presentation from staff; Therefore be it

RESOLVED, that the Committee hereby approves the following:

1. Extension of current contracts, as needed, to accommodate the timeline for the RFP process.
2. Release of the Request for Proposal as described in Attachment 1;
3. Use of a "Manager Pool" of qualified active managers to replace terminated managers or to supplement the roster of contracted managers;
4. Use of opened ended contracts (Evergreen contracts), and ;
5. Delegation of the "Final Selection" to staff and PCA with periodic updates to the Investment Committee.

Adopted by:

Investment Committee
on September 1, 1999

James D. Mosman
Chief Executive Officer